



Building on our Strengths – Home Based Business

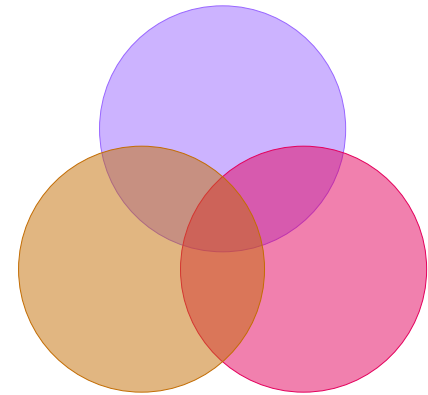
Ideas for Today and Tomorrow

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25% to 30% OF ALL BUSINESSES IN WASHINGTON ARE HOME BASED BUSINESS

- 98% of business is small business in Washington (less than 500 employees)
- Small (non-farm) business employs 2.3 million people
- 53% of small businesses are home based





Home Based Business is a Growing Trend

- 6% of all US households also house a business
- Projected growth rate is 11%
- Shift to service industry versus manufacturing
- Internet and communications technology advances
- Small manufacturing and craft specialization



Reasons for housing business in residence

- **Some are suited to home environment**
 - Infant and toddler daycare
 - Small professional offices
 - Bed & breakfasts
 - Cottage industries & artisans

- **Some are incubators of successful ventures that grow and move into non-residential setting**
 - Reduced rents & utilities overhead
 - Reduced commute time
 - Ease of non-standard work hours



Types of Barriers

- Regulations that limit mixed use of personal and residential property to generate income
- Regulations that disregard realities of business start-up and initial growth period
- Regulations that disregard disproportionate impact of regulations due to size of business
- Inability of super-small business (under 20 employees) to benefit from tax breaks associated with benefit plans or to access benefit plans, including health care and certain types of compensation schemes



Hidden costs of regulation for home based business

- Businesses with fewer than 20 employees pay 60% more per employee to comply with regulations
- Restrictions on employees (family members only) and inclusion of non-paid employees in determining license fees.
- Reverse scale-of-economy effect on profitability when regulations favor large employers



Federal Regulatory Barriers

IRS treatment of deductions penalize home-based business

- Home office treated as a commercial building-returning space to residential use has detrimental tax effect
- Deduction for a home office requires exclusive use – not realistic in a family residence
- Deductibility of legitimate business-related expenses (i.e., utilities) are contingent on deductibility of the home office
- Other deductions are based on percentage of use and inconsistent with exclusive use



Unequal treatment with respect to tax-favored programs based on size

- Pensions
- Health plans
- Educational assistance
- Stock options
- Cafeteria plans





Regulatory and Business Barriers in Washington

- Local licensing, zoning and registration
 - Number of employees (1)
 - Number of businesses
 - Type of employee (family only)
 - Type of business (no retail)
 - Parking
 - Signage
 - Visitors – on sight meetings w/clients
 - Hours of operation
 - Exteriors and outbuildings (storage/materials)
 - Equipment
- Tax on property used for business or mixed use
- Access to health care and benefits
- Environmental restrictions
- Access to loans



Advances

- Pending federal legislation to provide health care access
- DOL “one stop” licensing information website
- Small business advocacy by government agencies and policymakers
- Small business incubators that allow desk sharing, service sharing, common area sharing, etc. and complement and accommodate the home based enterprise
- Emerging local regulations that favor variances for telework and home-based business use



Ideas

- Statewide legislation to support small business development
- Incubators
- Loan programs
- Tax incentives
- Tax exemptions or restructuring
- Removing zoning barriers through incentives and education



Sources

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